

Detroit Public Schools Office of the Auditor General



FINANCIAL RELATED AUDIT OF NORTHWESTERN HIGH SCHOOL School Year 2008-09

REPORT NO: 09-151

REPORT DATE: June 30, 2009

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BACKGROUND

For School Year 2008 – 2009, 1,150 students were enrolled at Northwestern High School, which has grade levels Ninth through Twelfth Grade. Ms. Belinda Raines was the Principal during this time period and has been serving in this capacity since 2008.

Ms. Tracey Spencer, Secretary, performs the bookkeeping duties and has done so since 2008.

Northwestern High School maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include student activities. Sources of District Fund Revenues include Food Services (i.e., lunchroom).

AUDIT OBJECTIVES

The objectives of the audit were to ensure that:

- 1) The cash management system is effective in controlling the receipt, processing, deposit, and disbursement and accounting of funds to limit any risk of theft, misuse and/or misappropriation, and
- 2) General School funds (*for example, student fees, fundraising activities, grants, etc.*) and District funds (*for example, lunchroom receipts, fines, athletic/league game receipts, summer school tuition, etc.*) are properly accounted for, safeguarded and used as intended.

SCOPE & METHODOLOGY

The scope of the audit was to review the cash management activities from July 1, 2008 through March 31, 2009 for school year 2008-2009.

- 1) Interviewed key school officials to obtain an understanding of their cash management process.
- 2) Prepared a process narrative documenting the controls in place for each source of revenue.
- 3) Reviewed monthly cash receipt and cash disbursement ledgers: If the ledgers did not exist, transaction activities were compiled by totaling cash receipt records and reviewing the check register for cash disbursements.
- 4) Completed a cash receipt ledger template: The ledger was designed to identify funds, which may have been received but not deposited. Performed research as necessary

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SCOPE & METHODOLOGY (continued)

- 5) Performed a cash count: All cash on hand waiting to be deposited, as of the audit date, was counted under dual control by a field auditor and witnessed by a school official. The count did not include sealed cash for lunchroom deposits.
- 6) Compiled financial data via bank reconciliation templates: Reviewed reconciliations completed by the schools to identify banking irregularities and reconciling items outstanding for an extended period of time. Confirmed bank reconciliations were completed as reported to the Office of Central Accounting.

FINANCIAL SUMMARY

Table 1.1: Cash Receipts from General and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$78,203

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted the control weaknesses related to compliance with District cash management policy. Specifically, we noted bank reconciliations were not available for review for July and August 2008.

The detail of these findings and recommendations are included in the Findings Section of this report.

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AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The "School Administrative Financial Manual 2006 -07:" (SAFM) governs the cash management function within the District. Specifically, we noted bank reconciliations were not available for July and August 2008.

Cause

Officials did not adhere with policies to prepare and provide monthly bank reconciliations to the Central Accounting Department.

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should ensure that all staff responsible for financial transactions, are trained on District policy for cash management activities, as detailed in the "School Administrative Financial Manual 2006-07."

Also, the Principal should ensure that all individuals involved in the cash management process are aware of where current District policies are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

MATTER OF CONSIDERATION

Based on our review of the cash management process at Northwestern High School, we noted only the Assistant Principal has access to the safe, a control instituted to ensure cash is safeguarded until time of deposit. However, good business practice dictates that access should not be limited to one person. Such a restriction limits access to the cash in the event the Assistant Principal was absent from work for any length of time. Also, any additional funds received during this person's absence could not be properly safeguarded. We recommend that an additional person be given the combination to serve as a designated backup for those times when the school must gain access to the safe in the absence of the Assistant Principal.

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MANAGEMENT RESPONSE

Management Response provided by Ms. Belinda Raines, Principal.

The financial reports for July, 2008 and August, 2008 were completed and forwarded to the cash management department to Mrs. Shirley Crumpler in September, 2008.

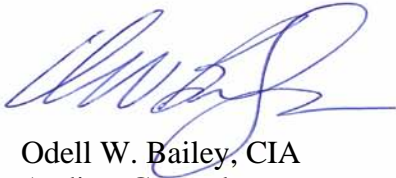
In response to your recommendation regarding the safeguarded cash:

Additional staff has been assigned to properly manage the combination safe. The persons responsible will be Ms. Belinda J. Raines, Principal and Ms. Debora Brown, Administrative Assistant. Upon my arrival at Northwestern in July 2008, I requested an internal audit prior to taking any financial responsibility to ensure the proper cause of district rules and regulations. This audit did not take place until November, 2008 with a follow-up audit in March 2009.

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Our audit was performed in accordance with U.S. General Accounting Office Government Auditing Standards and Standards of the Institute of Internal Auditors.

This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record.

A handwritten signature in blue ink, appearing to read 'Odell W. Bailey', is positioned above the printed name and title.

Odell W. Bailey, CIA
Auditor General